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UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s

Need for and feasibility of the establishment of a diversification fund for Africa's commodities

Note by the Secretary-General

Addendum

The annex to the present addendum contains comments and observations received from Member States on a study on the need for and the feasibility of the establishment of a diversification fund for Africa's commodities (see A/48/335), in accordance with the request of the General Assembly in paragraph 35, section II, of the annex to its resolution 46/151 of 18 December 1991.

In addition, the comments provided by the United Nations Conference on Trade and Development have been included.

Annex

I. COMMENTS BY MEMBER STATES

Belgium

I have the honour to write to you on behalf of the European Community and its member States in response to note verbale DPCSD Af/93-220 of 13 August 1993 concerning the study on the need for and the feasibility of the establishment of a diversification fund for Africa's commodities.

The Community and its member States are fully aware of the importance of economic diversification for the African countries, particularly in respect of commodities. Many activities already financed by the Community, including activities within the framework of the Lomé Conventions, correspond to this desire for diversification.

Furthermore, there are multilateral mechanisms already in existence which meet the concern for diversification. The African countries should mobilize to make effective use of the existing financing channels and of the second window of the Common Fund for Commodities which offers untapped financing possibilities.

Care must be taken to avoid any duplication arising from the establishment of a new fund whose objectives might be the same as those of existing structures.

However, within the framework of the United Nations new agenda for the development of Africa in the 1990s, the Community and its member States are prepared to consider the study submitted by the Secretary-General.

The consideration of this study should take into account the global nature of the commodity markets concerned and the need for diversification policies to be adjusted to take into account the specific characteristics of commodities and countries.

All future action in this field should, therefore, meet on a number of specific criteria. In addition, the economic context in which such action could be successfully undertaken should be carefully studied.

The Community and its member States will participate actively in the discussions of this subject at the forty-eighth session of the General Assembly.

Romania

The Permanent Representative of Romania to the United Nations presents his compliments to the Secretary-General of the United Nations and has the honour to transmit to him the comments and observations of the Romanian Government about the study undertaken on the need for and the feasibility of the establishment of a diversification fund for Africa's commodities (DPCSD Af/93-220).

In the view of the Romanian Government, the considerations and proposals in the above-mentioned study constitute a good basis for taking a decision with a view to establishing a diversification fund for Africa's commodities.

The suggestions put forward in the study regarding the establishment of such a fund within the framework of the African Development Bank, and the assistance required for the preparation of commodity diversification projects, deserve particular attention.

In order to assure financing for such a fund, which is estimated to need resources of between 50 and 75 million dollars, voluntary bilateral contributions and participation by multilateral financial institutions could both be envisaged as resources.

The recommendation in the study regarding the formation in Africa of national diversification councils which would draw up diversification projects and, in particular, cooperate closely with the fund is a useful complement to the proposal for the establishment of such a fund.

The participation of the United Nations Conference on Trade and Development (UNCTAD), the main United Nations body concerned with commodities, in the consideration and subsequent implementation of the proposals regarding the establishment of the fund would be highly desirable.

II. COMMENTS BY ORGANIZATIONS

United Nations Conference on Trade and Development

This study presents a good case on the need for and modalities of operation for a diversification fund for African commodities, but is much weaker in its treatment of the feasibility of such a fund. The suggestions to have the fund based on voluntary contributions, making grant allocations for pre-investment activities and located in an existing institution, presumably the African Development Bank, are in line with our own thinking. However, the case for promoting these suggestions with Governments in terms of interaction with existing initiatives, political support foreseen and realizable progress to be made from having the fund should be tackled if the ideas are to gain the approval of the international community.

In order to make the operations of the fund more likely to result in implemented projects, it would seem useful to:

(a) Add a mechanism for following the progress of projects developed under its auspices through to execution. Without this, there is a high risk of project profiles ending up in bottom drawers, as so often happens in Africa today. Monitoring further stages should help ensure that some action is taken and provide a way of improving project design over time. While projects submitted for financing from international financial agencies may not need such a mechanism, if one of the objectives is involvement of the private sector, both inside and outside of the country concerned, as investors in and implementors of projects, then following up on what happens after a project idea is developed

seems necessary. This should include promoting private sector investment and joint projects between domestic and overseas entrepreneurs.

(b) Include a mechanism for checking the consistency of projects over countries. As it stands, there is a great risk that projects on the same commodity for the same market are being pushed in several countries simultaneously. While it is clear that the central secretariat cannot stop any project, it could bring to the attention of national diversification councils that this is the case and could help to alert them about the market situation. In this regard, it would appear useful that UNCTAD, with its coordinating role in the commodities field, be a member of the proposed inter-agency committee.

The study refers mainly to developments in agriculture. This seems quite reasonable given the importance of agricultural products for Africa, both as export earners and as food for domestic consumption. However, mention should be made of the potential of minerals processing and small-scale mining in Africa's diversification efforts. There are several examples of this in recent years and countries are beginning to put more emphasis on this area.

It would also seem necessary for the study to refer to the need for diversification into commodity-related service activities, such as transport, marketing and distribution. One of the main obstacles facing African producers and exporters is the underdeveloped state of national exporting companies and their lack of credibility on world markets. This has become accentuated with the demise of marketing boards. Thus, diversification projects will only succeed if sufficient attention is paid to the development of modern marketing services as well as of production.

The idea of national diversification councils seems a good one. In fact, their foreseen functions resemble what we have been promoting through our Japanese-sponsored pilot project on processing in which the Food and Agriculture Organization of the United Nations (FAO) is participating. However, we would caution against letting these councils have the power to "pick winners", but rather one should emphasize their role in fostering government/private sector dialogue. There is a risk that they might end up as vehicles for pushing for government protection of new industries or production under infant-industry-type arguments. This is a dilemma faced in all countries, not only in Africa, but success stories suggest that it is important to promote good relationships between government and the local business community and that African countries lag significantly in this regard.

One minor point. The case for diversification in Africa can be presented more forcefully using figures on dependence on one or two export commodities than through using concentration indices, given the way these indices are constructed.

Kenneth Dadzie
Secretary-General of UNCTAD